



**BlackDiamond
Financial**

INVESTMENT INSIGHTS

FOURTH QUARTER 2020

Key Topics

- ◆ Stocks Soar in the Fourth Quarter and Propel 2020 Gains
- ◆ Market Outlook for 2021
- ◆ Potential Headwinds to Consider





Stocks Soar in the Fourth Quarter and Propel 2020 Gains

Multiple FDA-approved Covid-19 vaccines gave investors hope in the fourth quarter that 2021 will bring a return to normalcy and substantial economic growth. Although new Covid-19 cases are spiking and the virus is now the leading cause of death each day in the U.S., vaccinations are expected to dramatically reduce this threat by the middle of 2021. In addition, ambiguity over the presidential election has subsided and markets have exhibited comfort with a Biden presidency. The recent passing of a \$900 billion Covid-19 relief bill also bolstered investor optimism that the economy will endure while vaccinations are underway.

This was a stellar year for virtually all asset classes, including above average returns of 18.4% and 20.0% for large and small company stocks, respectively. Despite an 11.5% return this quarter, real estate was the worst performing major asset class in 2020 and declined by 7.6%. International stocks also performed admirably and returned 17.0% over the last three months and 10.7% for the full year. Bonds were flat this quarter and gained 0.7%.

Given the substantial gains in 2020 and the bifurcation between various asset class returns, investors should preserve discipline around diversification and rebalancing. Stocks may be volatile in 2021 and timing the market will remain extremely difficult. Higher than average stock market valuation multiples and ongoing Covid-19 induced economic disruptions may lead to periodic stock market declines throughout the year. Long-term investors should continue to stick to their investment plan and remain committed to prudent investment diversification.

Comparative Returns

	Annualized Performance				
	Q4 2020	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks ¹	12.2%	18.4%	14.2%	15.2%	13.9%
Small Cap U.S. Stocks ²	31.4%	20.0%	10.3%	13.3%	11.2%
International Stocks ³	17.0%	10.7%	4.9%	8.9%	4.9%
Real Estate ⁴	11.5%	(7.6%)	3.5%	4.8%	8.3%
U.S. Bonds ⁵	0.7%	7.5%	5.3%	4.4%	3.8%

¹ S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy

² Russell 2000, which includes the 2000 smaller stocks of the Russell 3000 index

³ MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets

⁴ MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks

⁵ Bloomberg Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market

Market Outlook for 2021

After a surprisingly good year for stocks in 2020, expectations are high for continued appreciation in 2021. As 2021 begins, near-term economic activity remains subdued, but the prospects for economic growth in the second half of the year are positive. Accommodative monetary and fiscal policy, coupled with the vaccine rollout, should provide a catalyst for a substantial increase in economic and earnings growth. The International Monetary Fund (IMF) forecasts a full global economic recovery in 2021, rallying from the 4.4% decline in 2020 to grow by 5.2% in 2021. Wall Street analysts remain universally bullish on the stock market in 2021 and project an average gain for the S&P 500 of 10% excluding a projected 2.0% dividend yield.



Potential Headwinds to Consider

Virtually every year begins with rosy projections for stocks from bullish Wall Street analysts. However, investors should consider a number of potential risks, including:

- **Vaccine rollout delays** – Positive stock market returns in 2021 are heavily dependent on a successful rollout of the Covid-19 vaccines. The market expects most people to be immunized by mid-year in developed countries.
- **Elevated stock valuations and optimistic sentiment** – The forward S&P 500 P/E ratio of 23.4x is substantially above the historical average of 16.5x. The basis for this is very low interest rates as a dollar made in the future is roughly equivalent to one today.
- **Monetary policy tightening** – Low interest rates have been a major impetus for recent stock market gains and investors are counting on this trend to continue through 2023.
- **Geopolitical and trade tensions persist** – President-elect Biden will likely provide relative stability by imposing fewer tariffs. However, he has stated that he will not immediately reduce tariffs with China and will continue to apply pressure on environmental and intellectual property rights issues.



ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment advisor with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, returns optimized, and tax-efficient. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is well-below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

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